

Vermont Municipal Employees' Retirement System

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MARCH 2005

DIRECTOR'S CORNER

I am excited to report that our office will be undergoing significant changes over the next few years. The Retirement Division of the State Treasurer's Office is at the beginning of a multi-year project to improve office efficiency and effectiveness by replacing our existing computer system with a new, state-of-the-art Line of Business (LOB).

There are multiple reasons for the upcoming changes. The most important is the fact that our current system was built in the mid-seventies, and with some minor updates has served us very, very well for almost thirty years. However, it is getting tired, and can no longer keep up with the daily demands being placed on it. Another primary reason is that our office has a staff of 12 to provide services to over 40,000 active and retired members. We need to build a system that can automate most of the processes we now do manually in order to be prepared to serve the wave of "baby-boomers" that are fast approaching retirement. Last, but certainly not least, is our goal of moving beyond

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HEALTH INSURANCE - WHAT'S THE PLAN?

PROBLEM: Retirees of Vermont municipal and school districts who receive pensions from the Vermont Municipal Employees' Retirement System (VMERS) are struggling to pay for the rising costs of health care. The average VMERS retiree receives a monthly pension payment of just \$424. Even coupled with Social Security payments and Medicare eligibility, the cost of health care services places a significant burden on these individuals. The state-funded teachers' and state employees' pension plans pay retirees between \$310 and \$1,140 a month toward the cost of health insurance, and the cost of this benefit is rising by double-digit percentages every year. To provide a comparable plan, VMERS employee and employer contribution rates would have to perhaps double to pay for retirees who contributed nothing for this benefit, and to set aside

enough to provide for future retirees. This would also raise a substantial question of fairness and equity among current retirees, contributing employees, and property tax payers, many of whom will struggle with the same issue in their retirement.

PROPOSAL: VMERS would establish individual "retirement health savings accounts" for each retiree and vested contributing employee. Annually, the VMERS board of trustees would review the financial health of the System based on the report of the actuary. If it were financially possible and prudent to do so, the Board would deposit such sums of money it deems appropriate into each account, based on the number of years of service for which each employee was a contributing member of the System. The member would invest the funds in



these accounts, similar to individual savings accounts (IRAs). In addition to the distribution of VMERS excess surplus funds into these accounts, it is hoped that employees and employers would also be able to make contributions. It is hoped that all contributions into the accounts would not be subject to federal or state income or other withholding taxes.

Upon retirement, individuals could access these accounts to pay for health care costs incurred. Eligible expenses would include health insurance premiums

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STRAIGHT FROM THE BOOK

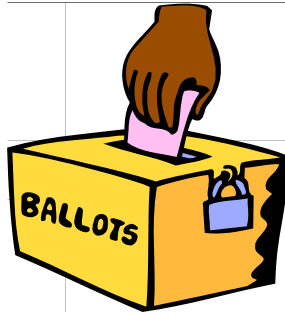
MILITARY, LEGISLATIVE, OR JURY DUTY LEAVE CREDIT

If a member is required to take a leave of absence from his or her present employer to serve in the military, that individual is entitled to credit in the retirement system for that period of leave. If a member takes a leave of absence to serve in the Legislature or on jury duty, or due to a workers' compensation injury, he or she is entitled to credit in the retirement system as well. Employers are notified that they must report such leaves to the system, but it is the

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2005 MUNICIPAL BOARD ELECTION 2005

An election for Employee Representative on the Board of Trustees will be held this spring. The term for Trustee W. John "Jack" Mitchell will expire on June 30, 2005. All active members (*members who are currently making contributions to the Municipal Retirement System*) are eligible to run for this seat and vote in this election.



If you are an active member and would like to be a candidate for the Trustee position, you must submit your letter of interest to Cynthia Webster at the Retirement Office no later than May 6, 2005.

To be considered a nominee, you must also include a brief biography that describes your qualifications and reasons why you wish to serve as a Trustee, along with at least five (5) signatures of people who are also active members of the retirement system.

Trustees are responsible for investment of the retirement funds and operation of the retirement system. They serve a 4-year term and may run for reelection at the end of their term. (Mr. Mitchell will be running for reelection.) Trustees are expected to attend quarterly investment meet-

ings and other required business meetings as determined by the Board of Trustees.

If only one person is officially nominated for the Trustee position, no election will be held. In this case, the Board of Trustees will simply appoint the nominee to the vacant position.

If you would like more information on nominations or election procedures, please contact the Municipal Employees' Retirement System at 1-800-642-3191 (toll free within VT) or 802-828-2305.

Be sure to watch your mail for an election ballot or a future edition of this newsletter for official notices.

DIRECTOR'S CORNER (continued from page 1)

he existing level of services to provide full access to personal retirement account information for members and retirees through our website and other appropriate means.

This project has multiple stages. The first stage was to conduct a high-level management review of our workflow and processes. This management review was completed last Spring, and we are in the process of implementing many of the recommendations from the study. Once the study was completed, we hired a Project Manager whose sole responsibility is to oversee the remaining stages of the project.

The second phase is to electronically image all of our paper files. Our office currently maintains a paper file for each and every active and retired member. We have estimated we have approximately 1.8 million pieces of paper in our office. Electronically imaging all of our paper files to allow a member's record to be viewed on our computer screens will not only save a significant amount of time, but will also be much more secure in the event of a fire or other type of disaster. A Request for Proposal (RFP) was recently posted on the web for a vendor to do our backfile conversion (imaging all paper files). We expect to contract with a vendor to complete the backfile conversion by the end of the Summer.

The final phase is the most significant – replacing our computer system. It is both exciting and scary. What an exciting opportunity for our staff to work together to build a new system that will address so many of our needs and assist us in better serving our members. It is also scary because it is such a monumental task and it is absolutely critical to "get it right."

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Deferred Comp Plan Changes—Update

Effective November 30, 2004, and after careful review of the 457 Deferred Compensation Plan, the Vermont State Employees' Retirement System (VSERS) Board added eight new investment options and discontinued five mutual funds and three profile portfolios. Participants in the eight discontinued investment options were then directed or "mapped" to the new replacement investment options.

The mutual funds were discontinued because of their long-term performance and other factors that no longer met the criteria established in the Board's *Investment Policy*. The profile portfolios were replaced because the Board felt that "age-based" lifecycle funds were more appealing to participants and better addressed asset changes as we grow older. For some participants, another change occurred effective January 1, 2005.

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STRAIGHT FROM THE BOOK (continued from page 1)

responsibility of the employee to be sure that the proper credit is made.

For example, if a member takes two weeks of leave without pay for military duty, the service credit that the member receives for that fiscal year may be reduced because of the off-payroll status unless the Retirement Office has received proper notification.

The annual statement should always be thoroughly reviewed, and if there appears to be a discrepancy or question about the service credit, the Retirement Office should be contacted immediately.

FY 2004 ACTUARIAL DATA

On October 25, 2004, the system's actuary, David Driscoll of Mellon Consultants, provided the Board of Trustees with a report of the FY'04 actuarial data

Among other interesting facts about your retirement system, you might like to know there are 5,633 active members at the average age of 46.31 years,

with an average 6.16 years of service in the system. Retired members total 1,099 and inactive and vested terminated members total 2,648.

Your retirement system is very healthy, thanks to the commitment and hard work of your Board of Trustees. To view the entire report, please visit the Treasurer's Web site.

457 Changes (continued)

The investment advisory fees for the Plan's Stable Value Fund (SVF), which were previously paid from the annual administrative fee collected from **all** Plan participants, started being charged directly to only the SVF participants. The net fund operating expense to participants is 0.314%*.

In the past, the investment advisory fees were paid from Plan assets. The VSERS Board recognized that it is more equitable to have SVF participants in the plan bear the investment advisory fee burden. The new investment advisory fee funding is now consistent with all other investment choices offered in the Plan.

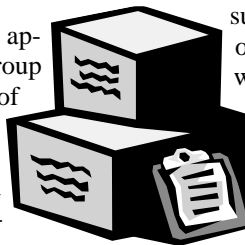
For more detailed information, or if you have any questions on this change, please contact a Great West Retirement ServicesSM representative at (800-457-1028).

*The gross net annual total fees fund operating expense for this Fund is 0.39814%.

Project Gratitude

The employees and administration of the Vermont State Treasurer's Office are touched by the sacrifices made by Vermont service men and women on our behalf, so we decided to initiate our own "Project Gratitude." In June of 2004, five boxes filled with items including flea collars, foot powder, gum, batteries, and even a couple of water pistols were sent to members of the Vermont National Guard stationed in Iraq. Again, in December 2004, we mailed nine similarly packed boxes, which were planned to arrive in time for Christmas.

This is a small gesture of our appreciation, and it gives our group of 35 co-workers a sense of great pride and satisfaction knowing these items would bring some pleasure and comfort to our fellow Vermonters, so far away.



We're committed to the continued support of our troops until all our Vermont service men and women are home.

Our hope is that these gifts, greeting cards, and notes make someone far away feel a little bit better and a little closer to home.

RETIREMENT BOARD OF TRUSTEES

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Editor: Donna Holden

Your 1099-R tax Form

In January, the retirement office mailed 1099-R forms to benefit recipients. You will need this form when you file your income tax return. The 1099-R provides information for the 2004 calendar year, including (Box 1) *total gross distributions*, (Box 2A) *total taxable amount*, and (Box 5) *health insurance premiums paid*. Taxes withheld are listed in Boxes 4 and 10. If you have questions, give us a call.

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www.vermonttreasurer.gov

* We wish you all a safe, healthy, *
* and happy spring!! *

If you are planning for a year, sow
rice; if you are planning for a decade,
plant trees; if you are planning for a
lifetime, educate people.
Chinese Proverb

HEALTH INSURANCE - WHAT'S THE PLAN? (Continued from page 1)

and all expenses eligible for reimbursement from Health Care Reimbursement Plans currently approved by the IRS. It is hoped that all such withdrawals could be made without incurring federal or state income or other withholding taxes. VMERS would only make contributions in years when the Board determined there was adequate excess surplus in its fund.

HYPOTHETICAL EXAMPLE: VMERS currently has 2600 vested active members and 1100 retirees. Let us assume each of those individuals has an average of 15 years of service contributing to the plan. That would total 55,500 years of service. Let us further assume that the VMERS Board determines that it can make a \$3.9 million distribution of excess VMERS surplus. That would mean that for each year of contributory service, each retiree and employee would receive in his or her account \$70 for that year. The average individual with 15 years of service would receive \$1050.

Steve Jeffrey, Chairman

Towards that end, we have hired an outstanding consultant team to assist us in completing our needs assessment study, draft the RFP for the new Line of Business (LOB), select a vendor for the LOB and negotiate the contract. The consultant team we hired has assisted in many similar system upgrades throughout the country and brings a level of expertise and knowledge to the table that far exceeds our expectations. We hope to have the RFP for the LOB distributed before the middle of the summer. We fully expect once a LOB vendor is selected, building and implementing the new system will take between two and three years.

I will continue to keep you updated on this project through newsletter articles and special mailings, if warranted. I welcome your questions and comments. I can be reached by calling our toll-free number: 1-800-642-3191 (within Vermont) or via my direct line: (802) 828-2302. You may also send me an e-mail at cwebster@tre.state.vt.us.

Cynthia L. Webster